House International Relations Asia-Pacific Subcommittee Hearing
U.S. - Vietnam Relations

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Good morning. I appreciate this opportunity to speak to you today on the status of United States trade relations with Vietnam. At the outset, I want to underscore the point made by Acting Assistant Secretary Bader, namely, that obtaining the fullest possible accounting for POW/MIAs remains this Administration's top policy priority with respect to Vietnam, and that all other policy decisions are considered with this in mind, including issues pertaining to economic normalization and trade relations.

In fact, it was in the context of progress on POW/MIA accounting that President Clinton lifted our trade embargo in February 1994. Up to that point, we had no trade relations with Vietnam. In July 1995, again in light of continued cooperation in accounting for POW/MIAs, the President normalized diplomatic relations with Vietnam, and directed that the process of economic normalization with Vietnam begin, in accordance with relevant U.S. laws. Economic normalization encompasses a number of important programs, including eligibility for OPIC and Export Import Bank financing, Trade Development Agency (TDA) programs, and normalization of trade relations. A number of U.S. agencies are involved in this process; today, I will focus on trade normalization, since that is the area under the purview of the United States Trade Representative.

We are at the early stages of normalizing our trade relationship with Vietnam, and are following the well-established process under Title IV of the 1974 Trade Act for developing trade relations with countries such as Vietnam. Our goal is to establish a firm foundation for those trade relations from the start, by negotiating a comprehensive trade agreement that should minimize future trade conflicts.

With the lifting of the trade embargo in 1994, trade was allowed to flow between the United States and Vietnam, but not on normal terms. Vietnamese exports to the United States still face high tariffs in the range of 40%-80%. These high tariffs, known as "Column 2" rates, apply to those few countries that do not receive MFN treatment. In fact, Vietnam is one of only a small number of countries that are not currently eligible for normal trading status.

Extending most-favored nation trading status to Vietnam is governed by Title IV of the Trade Act of 1974. Title IV establishes two preconditions and a caveat on extending MFN trading status to Vietnam:

- First, Vietnam must meet certain freedom of emigration requirements set out in the so-called "Jackson-Vanik" amendment to the Trade Act. However, the President may waive these requirements annually upon a finding that issuing such a waiver would promote the freedom of emigration goals of the statute.

- The second precondition on extending MFN status to Vietnam is the conclusion of a bilateral trade agreement addressing, at a minimum, the issues of safeguards, intellectual property rights, the settlement of commercial differences and disputes, and trade promotion. A bilateral trade agreement with Vietnam may not enter into force until after Congress passes a joint resolution of its approval. If these two criteria are met, MFN treatment can be extended to Vietnam.

- The continued extension of MFN trading status to Vietnam is subject to the caveat that if the President determines that Vietnam is not cooperating in our efforts to achieve a full accounting of military personnel lost during the Vietnam War, he may revoke its MFN trading status.

At USTR, our efforts are now focused on negotiating a comprehensive bilateral trade agreement. Our broad objective in negotiating this trade agreement is to establish equitable and mutually beneficial trade relations between our two nations. This means that in return for providing normal tariff treatment to Vietnamese products, Vietnam will be required to grant the United States MFN trade status and to ensure that U.S. firms and workers have meaningful opportunities to export to and do business in Vietnam, consistent with international standards. Achieving this trading relationship requires a comprehensive agreement addressing market access for goods and services, intellectual property protection, investment, and basic international trade norms such as transparency and national treatment. Such an agreement would promote the Administration's overall trade policy objective of opening world markets and expanding trade.

We have adopted this comprehensive approach for a number of reasons. This is the first such bilateral agreement negotiated after the conclusion of the Uruguay Round, where the international standards, especially as they apply to developing countries, are much more extensive than they were before.

Second, it is particularly important that a country of Vietnam's significance -- it has over 70 million people and its exports are growing at double-digit rates -- adopt international norms and practices.

Most significantly, there are real impediments to trade in Vietnam, which we must begin to address at this early stage of our economic relationship. The U.S. private sector, sensing Vietnam's future potential, has expressed a strong interest in the commercial opportunities in Vietnam; yet, a large number of U.S. companies have raised concerns about the difficulties of doing business since the embargo was lifted three years ago. In part, this is because they are new to Vietnam. Much, however, results from the fact that Vietnam has not yet established a trading system that even approximates international norms.

Vietnam is still in the process of making the transition from a centrally planned economy to a market economy, a process which began only a decade or so ago. It has made some important strides in this respect, which have allowed dynamic growth rates in Vietnam in recent years. However, much more needs to be done to open its economy to international competition. State owned enterprises, while no longer tied to a central plan, still receive preferential treatment, and are still largely shielded from direct competition with foreign firms. As a result, persons wishing to export to Vietnam still face an array of import barriers, from restrictions on the right to trade, to customs valuation problems, to high tariffs and import prohibitions. Access by foreigners to key service sectors, such as financial services and telecommunications, is still highly restricted. Foreign investors in Vietnam also face a broad array of discriminatory treatment. Vietnam's intellectual property protection regime is rudimentary.

As a result of our extensive consultations with the business community and our analysis of Vietnam's trade and investment regime, we have drafted an agreement that addresses these issues, the most important of which include:

- reducing tariff and non-tariff barriers to imports, including addressing the issue of basic trading rights;

- establishing transparency and regularity in the trade and investment policy regime;

- granting market access for key services sectors, such as financial services and telecommunications;

- ensuring protection and enforcement of all forms of intellectual property rights; and

- modernizing investment policies, including with respect to such issues as performance requirements, currency transfers, and national treatment.

To be realistic, these issues can not all be solved overnight. Vietnam's integration into the world economy, and full adoption of international trade and investment practices, will take some time. Our bilateral trade agreement with Vietnam should ensure that our trade relations are moving on the right path -- that Vietnam is taking concrete steps to adopt such practices, during a realistic time frame.

Concluding a comprehensive trade agreement with Vietnam will thus achieve three aims:

- it will make it easier for American firms to export and do business in Vietnam, helping create American jobs;

- it will facilitate the commercial and market access reforms and adherence to rule of law in Vietnam necessary for WTO membership. The agreement will thus advance a mutual goal of the United States and Vietnam, namely, Vietnam's integration into the world economy and adoption of international norms. Vietnam's broad commitment to such outward orientation are reflected in its participation in ASEAN (Association of South East Asian Nations), which includes the ASEAN Free Trade Area, as well as its application for WTO membership.

- and finally, as a result, it will establish U.S. Vietnam trade relations, which are still in their early stages, on the firmest possible foundation. We have adopted this comprehensive approach in an effort to minimize the kind of bilateral trade friction that has unfortunately sometimes characterized our relations with other Asian countries.

In late 1995- early 1996, we completed the first phase of the process, an analysis of Vietnam's trade and investment regime, working with Vietnam and our private sector. Based on this analysis, Ambassador Barshefsky met with Vietnam's trade minister in May 1996, and outlined our views on the essential elements of a bilateral agreement. We have drafted a detailed agreement text that encompasses these elements. In April of this year we completed our presentation and explanation of this text to the Vietnamese government. We are awaiting Vietnam's formal response to the text.

While we are awaiting a response to on the comprehensive agreement, we have already made progress on the key issue of intellectual property protection. During our April meetings, we completed negotiation of a bilateral copyright agreement with Vietnam that will significantly improve the trading environment in Vietnam for the U.S. motion picture, sound recording, software and publishing industries. These industries have had no protection for their most important assets -- their copyrighted works -- in Vietnam. This agreement will for the first time require Vietnam to protect U.S. works and allow the copyright industry to enforce their rights in Vietnamese courts. This agreement is a major step forward for our copyright industries and will facilitate negotiation of the more comprehensive intellectual property provisions of the draft trade agreement.

In sum, we still have much work ahead of us as we normalize trade relations between the United States and Vietnam, and specifically, in the negotiation of a bilateral trade agreement. As I have noted, that agreement must not only be negotiated, but approved by Congress for normal trade status to be granted. We look forward to working closely with Congress, including the members of this committee, as we move forward in that process.